
# Unpredictable markets got you idle?

**While market volatility chases many investors to the sidelines, it can be a great opportunity to bolster your long-term portfolio strategy.**

**SHORT-TERM MARKET UPS AND DOWNS** can be very unnerving, even if your goals are far in the future. So it's not surprising two recent surveys have found that many investors aren't enthusiastic about investing in today's markets. In February 2016, the Manulife Investor Sentiment Index fell to its lowest level since the financial crisis in 2008.[1] That same month, CIBC World Markets reported that Canadians were holding $75 billion in cash, instead of in investments better suited to longer-term goals.[2]

It can be difficult to stay the course when markets are volatile. However, keeping your money inactive and out of the markets may actually mean missing opportunities that could help you meet your investment objectives. Cash has a hard time keeping up with inflation, let alone building value over time. And, historically, the moments when investors were most pessimistic about the markets have been among the best times to invest because they have often been followed by market upswings, as demonstrated in the graph on the next page.

Investment choices have broadened over the past decade, giving you and your advisor more flexibility to build a portfolio with growth

[1] www.manulife.com/public/news/detail/0,,lang=en&artId=148682&navId=630002,00.html [2] www.newswire.ca/news-releases/canadians-hoard-an-unprecedented-75-billion-in-extra-cash-amid-market-volatility-cibc-566532301.html

potential that remains safely within your tolerance for risk. Here are three strategies to consider.

### 1. Diversify to help soften the ups and downs

Owning investments that tend to rise and fall at different times can help smooth out your returns. The traditional way to diversify has been to mix stocks and bonds in a balanced fund – and that can still be an effective approach for some investors.

In addition, alternative investments are becoming more accessible to investors; diversifying into hedge funds, private equity, real estate, infrastructure, farm and timber lands, and commodities can offer additional levels of risk management. Investors also have the opportunity to benefit from sophisticated strategies used by institutional investors (such as pension plans) – for example, funds that target absolute returns to help control volatility.

### 2. Use guarantees to help put a floor on losses

In times of volatility, investors often flock to guaranteed products such as bank-offered guaranteed investment certificates. However, there are other guaranteed options with greater growth potential – something that's especially important in the current environment of historically low interest rates.

Segregated fund contracts are a popular choice because they come with a wide variety of underlying investments. Their maturity guarantee and death benefit guarantee offer a guaranteed payment after a contract has been held for a set term and on death, no matter what happens in the markets. They can also offer estate planning benefits and potential creditor protection.

### 3. Get back into the markets gradually

While it is a good idea to deploy excess cash relatively quickly, you don't have to invest everything at once. It may be easier to commit to investing smaller amounts on a regular basis – and that's simple to set up with your advisor. There's another reason to take the "gradual" approach of a regular investment plan: it enables you to benefit from dollar cost averaging. Essentially, the fixed sums you invest will buy more units when prices are low and fewer units when prices are high, effectively lowering your average cost. When your average cost is lower, your returns (measured against that average cost) are higher.

### Stay focused on your destination

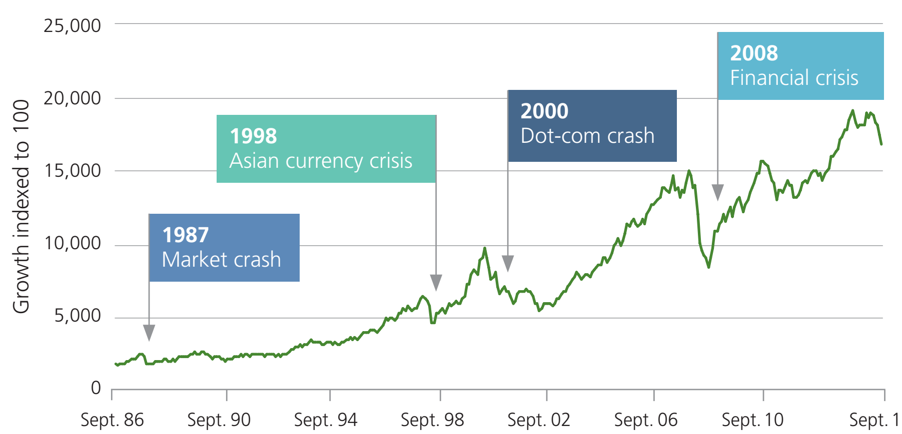
If you were a pilot flying through turbulence, you'd likely make modest adjustments to your altitude to reach less stormy skies. You wouldn't head outside at 30,000 feet to change the wings on the plane. The same principle applies when investing. Your portfolio may need minor tweaks to keep you comfortable when markets are volatile, but radical changes (for example, holding too much of your portfolio in cash) could seriously affect your chances of reaching your destination.

The key is to remember why you're investing in the first place. When you focus on what you want to achieve with your money – whether that's a comfortable retirement for you, education for your children or any other goal – it becomes clearer which course you should plot through financial market turbulence.

Speak with your advisor about different investment opportunities. Many solutions are available, and he or she can help you identify the ones that will best support your overall financial plan. ■

**Periods of crisis are often followed by periods of market gain**

S&P/TSX Composite Total Return Index




Source: Morningstar Direct as at September 30, 2015. For illustration purposes only. Performance histories are not indicative of future performance. The index is unmanaged and cannot be purchased directly by investors. Periods of market crises highlighted on the chart above are not representative of Morningstar Direct.